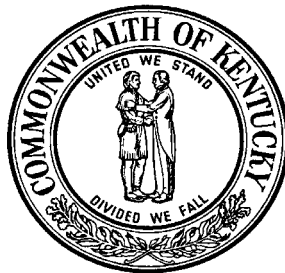


**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
CLERK**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCREARY COUNTY CLERK

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the McCreary County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$3,411 from the prior year, resulting in excess fees of \$5,651 as of December 31, 2005. Revenues increased by \$20,056 from the prior year and allowable expenditures increased by \$23,467.

Debt Obligations:

The clerk entered into a lease agreement totaling \$11,225. Future principal and interest payments of \$9,120 are needed to meet these obligations as of December 31, 2005.

Report Comments:

- The County Clerk Had A Deficit Of \$2,654 In Her Official Account
- The County Clerk Expended \$1,953 For Disallowed Expenditures
- The County Clerk's Office Did Not Maintain Accurate Payroll Records
- The County Clerk Should Pay Deed Transfer Taxes Quarterly And Remit Proper Amounts To The County Treasurer
- The County Clerk Should Pay Occupational Licenses Received From Local Businesses Quarterly
- The County Clerk Should Pay County Occupational Taxes Withheld From Employees Quarterly
- The County Clerk Participated In Related Party Transactions
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCreary County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2006 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Had A Deficit Of \$2,654 In Her Official Account
- The County Clerk Expended \$1,953 For Disallowed Expenditures
- The County Clerk's Office Did Not Maintain Accurate Payroll Records
- The County Clerk Should Pay Deed Transfer Taxes Quarterly And Remit Proper Amounts To The County Treasurer
- The County Clerk Should Pay Occupational Licenses Received From Local Businesses Quarterly
- The County Clerk Should Pay County Occupational Taxes Withheld From Employees Quarterly
- The County Clerk Participated In Related Party Transactions
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 21, 2006

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Grants		
Libraries and Archives Grant	\$	155
State Fees For Services		7,476
Fiscal Court		10,727
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	361,464
Usage Tax		502,264
Tangible Personal Property Tax		726,649
Lein Fees		5,270
Other-		
Fish and Game Licenses		5,604
Marriage Licenses		6,409
Occupational Licenses		378
Deed Transfer Tax		20,482
Delinquent Tax		141,841
		<hr/> 1,770,361
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		10,185
Real Estate Mortgages		17,193
Chattel Mortgages and Financing Statements		64,528
Powers of Attorney		1,298
Bail Bonds		2,205
Bills of Sale		4,784
All Other Recordings		20,685
Charges for Other Services-		
Candidate Filing Fees		3,000
Copywork		8,518
Cash Over/Short		259
		<hr/> 132,655
Other:		
Miscellaneous		919
Interest Earned		<hr/> 752
Total Revenues		<hr/> 1,923,045

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	273,529	
Usage Tax		487,412	
Tangible Personal Property Tax		284,643	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		5,223	
Delinquent Tax		49,806	
Legal Process Tax		15,948	\$ 1,116,561

Payments to Fiscal Court:

Tangible Personal Property Tax	117,070	
Delinquent Tax	12,966	
Deed Transfer Tax	19,457	
Occupational Licenses	293	149,786

Payments to Other Districts:

Tangible Personal Property Tax	295,813	
Delinquent Tax	58,236	354,049

Payments to Sheriff 326

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 138,569

Employee Benefits-

Employer's Share Social Security 15,148

Employer's Share Retirement 18,581

Employer's Paid Health Insurance 27,200

Unemployment Insurance 141

Other Payroll Expenditures 703

Contracted Services-

Maintenance and Repairs 6,400

Advertising 276

Printing and Binding 2,665

Materials and Supplies-

Office Supplies 8,026 217,709

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	106	
Dues		475	
Refunds		83	
Postage		3,765	
Telephone		2,354	
Libraries and Archives Grant		155	
Miscellaneous		316	
			\$ 7,254

Debt Service:

Lease Purchases	2,991	2,991
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Total Expenditures \$ 1,848,676

Less: Disallowed Expenditures

Life Insurance Premiums	1,214
Dental Insurance Premiums	500
Christmas Decorations	111
Picture	106
Tax Penalties	4
Overpayment of State Withholdings	18

Total Disallowed Expenditures 1,953

Total Allowable Expenditures 1,846,723

Net Revenues 76,322

Less: Statutory Maximum 67,071

Excess Fees 9,251

Less: Expense Allowance 3,600

Excess Fees Due County for 2005 5,651

Payment to Fiscal Court - May 18, 2006 4,000

Balance Due Fiscal Court at Completion of Audit \$ 1,651

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grants

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$155. Funds totaling \$155 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2005.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 5. Lease

The office of the County Clerk was committed to a lease agreement with Xerox for a copy machine. The agreement requires a monthly payment of \$234 for 48 months to be completed on April 1, 2009. The total balance of the agreement was \$9,120 as of December 31, 2005.

Note 6. Related Party Transactions

During the year ended December 31, 2005, the McCreary County Clerk's office conducted business with Monumental Life Insurance Company. The McCreary County Clerk's bookkeeper was an employee of Monumental Life Insurance Company during the audit period. Transactions involving Monumental Life Insurance Company and the McCreary County Clerk's office should be reviewed by the McCreary County Ethics Board to determine that no ethical violations had occurred.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2005

Assets

Cash in Bank		\$	86,091
Deposits in Transit			23,762
Receivables:			
Fiscal Court Payment For Clerk's Salary	\$	3,259	
Interest		47	
Retirement Refund		1,598	
Due From 2006 Fee Account		665	5,569
			<hr/>
Total Assets			115,422

Liabilities

Paid Obligations:

Outstanding Checks			9,299
State Treasurer-			
Motor Vehicle Licenses		9,354	
Tangible Personal Property Tax		20,945	
Legal Process Tax		1,117	
Delinquent Tax		5,127	
State Income Tax Withholdings		980	
McCreary County-			
Tangible Personal Property Tax		8,514	
Delinquent Tax		1,466	
Deed Transfer Tax		10,951	
Occupational Licenses		130	
Excess Fees - 2005		4,000	
Withholdings - Occupational Tax		537	
Payments To Other Districts -			
Tangible Personal Property Taxes:			
School District		12,522	
Health District		1,669	
Library District		3,164	
North Fire District		211	
Central Fire District		1,983	
South Fire District		1,563	
Eagle Sawyer Fire District		279	
West Fire District		127	84,639

MCCREARY COUNTY
 JO KIDD, COUNTY CLERK
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS
 December 31, 2005
 (Continued)

Liabilities (Continued)

Paid Obligations: (Continued)

Payments To Other Districts - (Continued)

Delinquent Tax:

School District	\$	3,539	
Health District		371	
Library District		495	
Soil Conservation District		144	
North Fire District		11	
Central Fire District		220	
South Fire District		245	
Eagle Sawyer Fire District		69	
West Fire District		391	
Sheriff - Delinquent Taxes		185	
FICA Withholdings		2,508	
Federal Withholdings		2,173	
Retirement Withholdings		4,820	
Copy Machine Payments		234	
Telephone		249	
Post Office Box Rent		46	
Life Insurance Premiums		101	
Health Insurance Premiums		2,328	
Computer Maintenance Agreements and Support		2,465	
Usage Tax Refund		210	\$ 20,804

Total Paid Obligations		114,742
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Unpaid Obligations:

McCreary County-

Deed Transfer Tax	949
Excess Fees - 2005	1,651
Retirement Withholdings	486
Occupational Tax Withholdings	86
Other Withholdings	162

Total Unpaid Obligations	3,334
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Total Liabilities	118,076
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Total Fund Deficit as of December 31, 2005	\$ (2,654)
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COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The County Clerk Had A Deficit Of \$2,654 In Her Official Account

Based on our audit, the County Clerk had deficit in her 2005 fee account in the amount of \$2,654. This deficit was the result of disallowed expenditures of \$1,953 and overpayment of the Clerk's salary by \$701. We recommend the County Clerk deposit personal funds of \$2,654 to eliminate this deficit.

County Clerk's Response: I will deposit personal funds and provide documents that this has been paid.

The County Clerk Expended \$1,953 For Disallowed Expenditures

The County Clerk expended a total of \$1,953 from her official account for disallowed expenditures. These expenditures were made for the following items:

Christmas Decorations	\$ 111
Life Insurance Premiums	1,214
Dental Insurance Premiums	500
Picture	106
IRS Penalty and Interest	4
Overpayment of State Tax Withholdings	<u>18</u>
Total	<u><u>\$ 1,953</u></u>

Since the county does not provide life or dental insurance for other county employees, those expenditures have been disallowed. We recommend the County Clerk deposit personal funds of \$1,953 for these disallowed expenditures.

County Clerk's Response:

I will deposit personal funds to pay these disallowed expenditures.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The County Clerk's Office Did Not Maintain Accurate Payroll Records

Accurate payroll records were not maintained for the County Clerk and her deputies. Several posting errors were made to the Individual Earnings Records. As a result, the County Clerk received a total of \$701 more than the maximum salary authorization set by the Governor's Office for Local Development for calendar year 2005. This overpayment consisted of an additional \$671 paid directly to the County Clerk, and \$30 more than the amount withheld from her payroll checks that was paid to Commonwealth Credit Union on her behalf. Deputies received \$1,733 more than the amounts recorded on the payroll sheets. Since the W-2 forms are prepared from the Individual Earnings Records, these amounts were not included on the W-2 forms. No withholdings were reported or paid for these additional amounts.

Based on the amounts reported on W-2 forms, amounts withheld for state tax withholdings, occupational tax withholdings, and Commonwealth Credit Union withholdings were not properly paid. State tax withholdings were overpaid by \$18. Occupational tax withholdings and Commonwealth Credit Union withholdings for deputies were underpaid by \$86 and \$163 respectively. Occupational tax withholdings were computed after retirement withholdings were deducted from the gross salaries. In accordance with the County's Occupational Tax Ordinance, these taxes are to be computed on gross salaries. We recommend the County Clerk maintain accurate payroll records in the future and that proper amounts be reported on W-2 forms. Occupational taxes should be computed and withheld based on the gross salaries. We further recommend that the County Clerk deposit \$701 from personal funds to refund the amount that exceeded the maximum salary authorization set by the Governor's Office for Local Development and pay these additional withholding liabilities from her official account.

County Clerk's Response:

These payroll errors were made in May and June, 2005. Our payroll computer tore up and we had to buy another, thus causing most of these errors.

The County Clerk Should Pay Deed Transfer Taxes Quarterly And Remit Proper Amounts To The County Treasurer

The County Clerk did not pay deed transfer tax to the Fiscal Court on a timely basis. The second quarter remittance was made on September 12, 2005 and the third quarter remittance was made on January 12, 2006. In addition, remittances for the second and third quarters were underpaid by a total of \$942. KRS 142.050(4) requires the County Clerk to collect the tax and "retain five percent (5%) as [her] fee for collection and remit the balance every three (3) months to the county treasurer" We recommend the County Clerk pay proper amounts of deed transfer taxes for each quarter in the month after the close of each quarter.

County Clerk's Response: This will be corrected in 2006.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The County Clerk Should Pay Occupational Licenses Received From Local Businesses Quarterly

The County Clerk did not pay occupational license taxes received from local businesses to the Fiscal Court on a timely basis. The second quarter remittance was made on September 9, 2005 and the third quarter remittance was made on January 12, 2006. We recommend the County Clerk pay occupational license taxes for each quarter in the month after the close of each quarter.

County Clerk's Response: This will be corrected in 2006.

The County Clerk Should Pay County Occupational Taxes Withheld From Employees Quarterly

The County Clerk did not pay county occupational taxes withheld from her employees to the county's occupational tax administrator on a timely basis. The second quarter remittance was made on August 13, 2006. We recommend the County Clerk pay county occupational taxes withheld from her employees for each quarter in the month after the close of each quarter.

County Clerk's Response: I understand and will correct this.

The County Clerk Participated In Related Party Transactions

During 2005, the County Clerk expended \$1,214 to purchase life insurance for her deputy clerks from the Monumental Life Insurance Company. The County Clerk's son who is the bookkeeper for the Clerk's office was a District Manager for Monumental Life Insurance Company during the audit period. The County's code of ethics states:

- A. No county government officer or employee or member of his immediate family shall have an interest in a business organization or engage in any business, transaction, or professional activity which is in substantial conflict with the proper discharge of his duties in the public interest.
- B. No county government officer shall use or attempt to use his official position to secure unwarranted privileges or advantages for himself.

Since the County does not provide life insurance coverage for other county employees, we have disallowed these expenditures. We recommend the County Clerk refrain from purchasing life insurance for her employees from her fee account. If employees wish to purchase life insurance through the clerk's office, the monthly premiums should be withheld from the employees' payroll checks. We further recommend the McCreary County Ethics Commission review these transactions for appropriateness.

County Clerk's Response: I had been paying these for years from my personal money. In 2005 I forgot to do this. I have corrected this for 2006. I am paying this from my personal money at this time. Will send documentation to verify this.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. She could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The County Clerk should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The County Clerk could document this by initialing the quarterly financial report.
- The County Clerk should periodically compare invoices to payments. The County Clerk could document this by initialing the invoices.
- The County Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The County Clerk could document this by initialing the bank reconciliation and the balance in the checkbook.

County Clerk's Response: None

PRIOR YEAR:

The Clerk Should Pay Deed Transfer Taxes Quarterly

This has been a recurring comment that was not corrected in the current year and is included in the current year audit.

The County Clerk Should Pay County Occupational Taxes Withheld From Employees Quarterly

This has been a recurring comment that was not corrected in the current year and is included in the current year audit.

Timesheets Were Not Properly Kept For Employees Of The Clerk's Office

This was corrected in the current year.

The Clerk Should Deposit Personal Funds Of \$1,809 To Eliminate A Deficit In Her Official Fee Account As Of December 31, 2004

This was corrected in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCreary County Clerk for the year ended December 31, 2005, and have issued our report thereon dated November 21, 2006. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Had A Deficit Of \$2,654 In Her Official Account
- The County Clerk Expended \$1,953 For Disallowed Expenditures
- The County Clerk's Office Did Not Maintain Accurate Payroll Records
- The County Clerk Should Pay Deed Transfer Taxes Quarterly And Remit Proper Amounts To The County Treasurer
- The County Clerk Should Pay Occupational Licenses Received From Local Businesses Quarterly
- The County Clerk Should Pay County Occupational Taxes Withheld From Employees Quarterly
- The County Clerk Participated In Related Party Transactions

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 21, 2006

